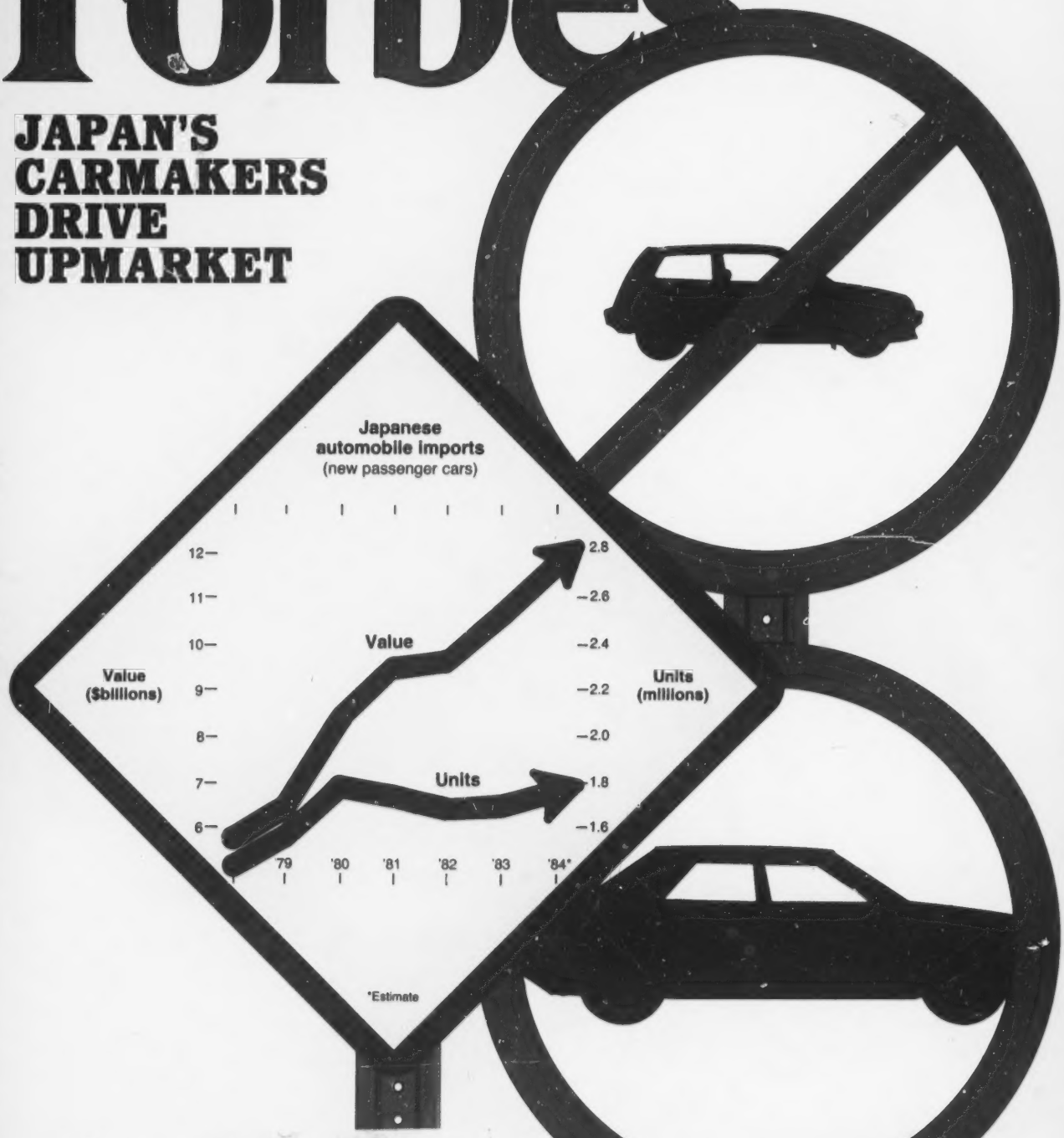
SEPTEMBER 10, 1984 THREE DOLLARS

C3950-1

Forbes

JAPAN'S CARMAKERS DRIVE UPMARKET



T2511430 SAMPLE ZZRWR
EDWARD KRIANKA AB3A
CONGRELL INFO MAT SERV DIR
7101 WISCONSIN AVE
BETHESDA MD 20814

0 74820 08317

Forbes

September 10, 1984
Volume 134
Number 6

41

58

The editorial index of companies referred to in this issue is on page 230.

Companies

40 News Corp.
Bingo games in the Times of London. Is nothing sacred to Rupert Murdoch? Don't ask; you know the answer.

50 PACCAR, Inc.
Moving up fast in the passing lane.

54 Transco Energy Co.
It's a beautiful way of fending off raiders, when you think about it: Just keep the shareholders happy.

58 Congoleum Corp.
In most of the defense industry, cost overruns and delays are a way of life. Not at Congoleum's Bath Iron Works.

94 The Up & Comers
Cincinnati Microwave; moviemaker Charles W. Fries; Inertia Dynamics Corp.

128 Lockheed Corp.
It's been only 13 short years since it was bailed out by the government. Now it's the hottest aerospace company.

Regions

66 Dallas County, Iowa
Besides hardy people, Dallas County doesn't have much but corn. But when it's good, the corn is enough.

Industries

88 Oilfield Service
After wallowing in the trough for three years, the oil patch is generating billions of dollars in excess cash flow.

109 Health Care
Businesses fight back over out-of-control medical insurance premiums.

112 The Banks
Big Western banks have turned on the spigot to Eastern Europe again.

142 Telecommunications
Paying the phone bill used to be a sacred obligation. Increasingly, that's no longer the case.

157 Publishing
Here's the newest thing in literature—books on tape.

160 Electrical Utilities
Of course, you can't deregulate utilities. Or can you?

International

41 Cover Story: Japan Moves Up
Forced to limit their export volumes, Japanese carmakers are replacing their small export cars with bigger ones loaded with options.

119 Brit Pix Biz Clix
Great Britain's movie business is humming. Major reasons: Tax benefits and American movies.

Departments

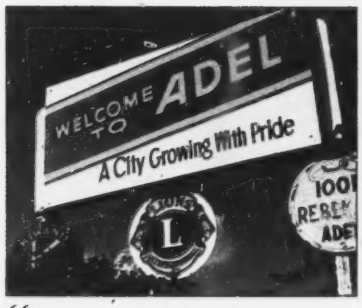
6 Side Lines
8 Trends
12 Follow-Through
18 Readers Say
25 Fact and Comment
28 Other Comments
31 Fact and Comment II
231 Flashbacks
232 Thoughts

Money & Investments

33 What's Ahead For Business
34 The Forbes Index
199 The Forbes/Wilshire 5000 Review

Columnists

217 Ben Weberman
218 Susan Lee
220 Ann C. Brown
222 David Dreman
224 Kenneth L. Fisher
225 Srully Blotnick
226 Stanley W. Angrist
227 Thomas P. Murphy
228 Ashby Bladen



66

128

163

Government

144 A Dangerous Addiction
Are we getting hooked on foreign money just as we once got hooked on foreign oil?

Profiles

124 Roy Park
Don't let the trappings fool you. Centimillionaire or no, 73-year-old Roy Park is an old-fashioned workaholic.

Wall Street

38 Who Got The Money?
In the Petro-Lewis debacle, three guesses. The lawyers and brokers are chuckling all the way to the bank.

122 Commander Zero On The Street
Why did Salomon Brothers buy up nearly an entire $4.75 billion issue of 30-year government bonds?

202 Streetwalker
Cummins Engine; International Paper Co.; Hewlett-Packard; Tidewater; Big Oil follies.

204 The Funds
The theory of bond "duration" is suddenly the hottest thing since betas.

206 Statistical Spotlight
Missed the boat? Here is a list of companies that still appear attractively priced relative to future earnings. Also: Cash-rich companies.

Numbers Game

114 On The Carpet With The SEC
Censure sounds ominous, but there are much worse forms of SEC rebuke. Also: Deferred tax liabilities.

Taxing Matters

134 Getting Soaked Around The World
A roundup of the international tax scene.

On The Docket

163 "Flag Carrier For The Patent System"
Bringing consistency to an unmitigated mess.

Marketing

164 Honda Turns Back The Clock
The world's largest motorcycle manufacturer goes after the youth market again. Also: Not-for-profit profits.

Technology

166 Lights! Camera! Computer!
Digital special effects. Also: cigarette radiation; diets for the strenuous; a shrink in a black box.

Personal Affairs

176 Contrarian Career Strategy
Today's young hotshots look for companies in trouble. Also: Best buys in long distance.

Faces Behind the Figures

190 Don Carter, *Carter Organization*
190 John Backe, *Backe Communications*
191 Dennis Fitzpatrick, *F.E.L. Publishing Ltd.*
192 John Petty, *Marine Midland Banks*
194 Paul-Loup Sulitzer, *author*
194 Stanley Durwood, *AMC Entertainment, Inc.*
196 Peter Bordeaux, *Sazerac Co.*

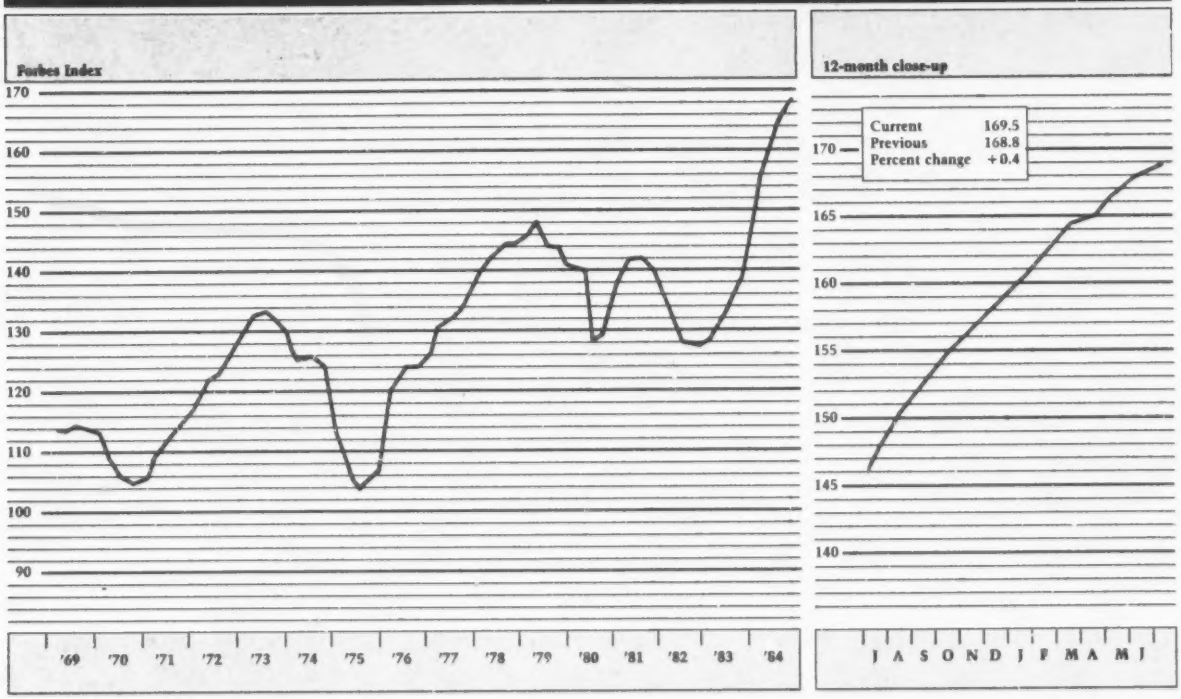
September 10, 1984 Volume 134 Number 6 Forbes (ISSN 0015 6914) is published biweekly, except weekly during two weeks in April and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription $39 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

Copyright © 1984 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

Forbes does not supply back issues or copies of individual articles nor can it provide information on the contents of earlier issues. Photocopies may be ordered from University Microfilms International, 300 N. Zeeb Road, Ann Arbor, Mich. 48106. The full text of each issue of Forbes is also available electronically on Nexis, Infobank (through Nexis), Dialog and Dow Jones News/Retrieval. Information on the contents of issues can be found in *Readers' Guide to Periodical Literature* or *Business Periodicals Index*, both published by the H.W. Wilson Co. and found in most libraries.

Cover illustration: Andrew Christie

The Forbes Index



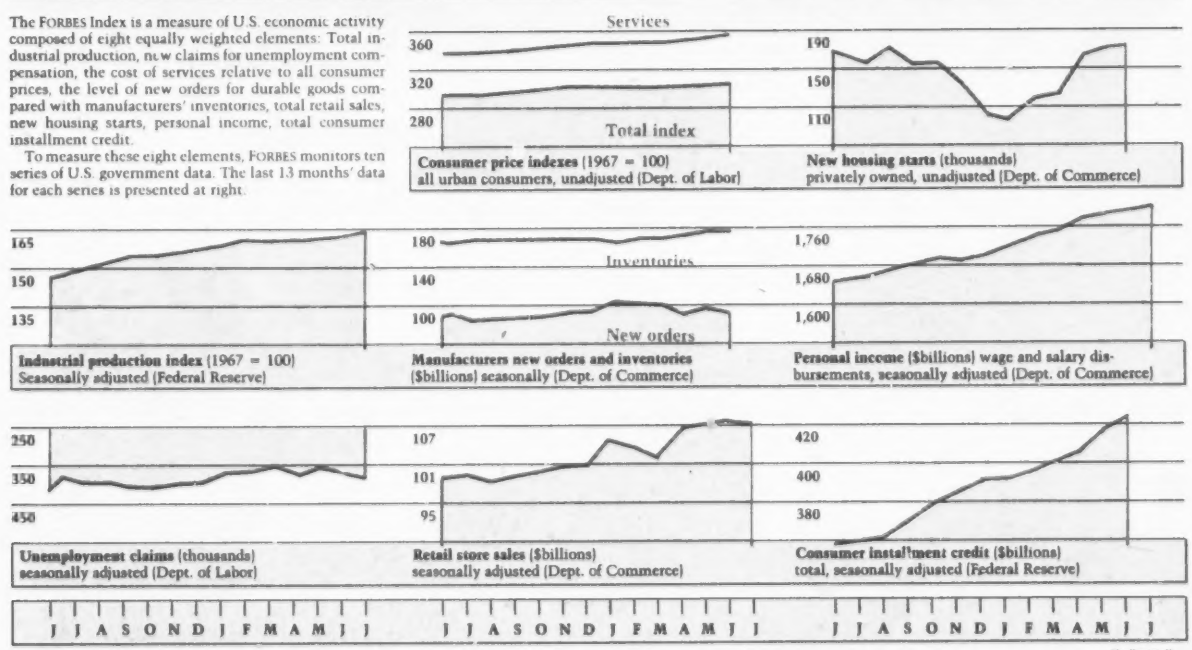
A streak of luck. With the economy showing signs of cooling down, it is getting harder for the Forbes Index to register increases. So far, however, the stronger components have gained enough to offset declines in other areas. Industrial production, for example, shows a 0.9% month-to-month rise. Consumer installment credit was up 1.9% while the figure for personal income, which is more current, increased by only 0.6%. This means that individuals are borrowing at a faster pace than their incomes are increasing—not a healthy situation over the long term.

Another cause of concern is new unemployment claims. They were up for the second month in a row. Finally, retail sales declined 0.9% in July.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



Shelley Dell

The Japanese have discovered what Detroit learned long ago—the auto business is as much about fashion as it is about transportation. With that in mind, they are moving upmarket in the U.S.

Saab, Mercedes, Volvo, BMW, Jaguar, watch out!

By Lawrence Minard

WHAT'S THE BOTTOM LINE on those import quotas on Japanese cars? For all their complaining, the bottom line is immensely favorable to the Japanese. In 1980, the last full year before quotas were imposed, they grossed $8.2 billion on the 2 million cars they shipped here. This year they should gross $12.4 billion on 150,000 fewer vehicles. In short, since quotas took hold, the Japanese have increased their automotive take here by 50%. Of this dollar increase perhaps $1 billion is attributable to inflation. The rest is largely gravy for the Japanese. Their net profits from selling autos here have probably doubled since they agreed to limit their auto shipments to 1.68 million units (this model year, 1.85 million).

Forced to limit their export volumes, the Japanese carmakers have methodically begun to replace their small, inexpensive export cars with larger, more expensive ones loaded with options. The small, inexpensive entry-level Japanese car, priced under $6,000, has all but vanished. The bottom end of the market now belongs chiefly to Detroit *(see box, p. 44).*

Nissan is a prime example of what is going on. In 1980 Nissan sold 431,000 of its low- and medium-priced models—its Sentra, Pulsar, Stanza and 200SX—which today range in price from $5,399 to $8,699 (excluding turbocharged versions). By last year sales of those models had been cut back to 367,000 units, primarily because of reduced shipments in the midpriced Pulsar and 200SX.

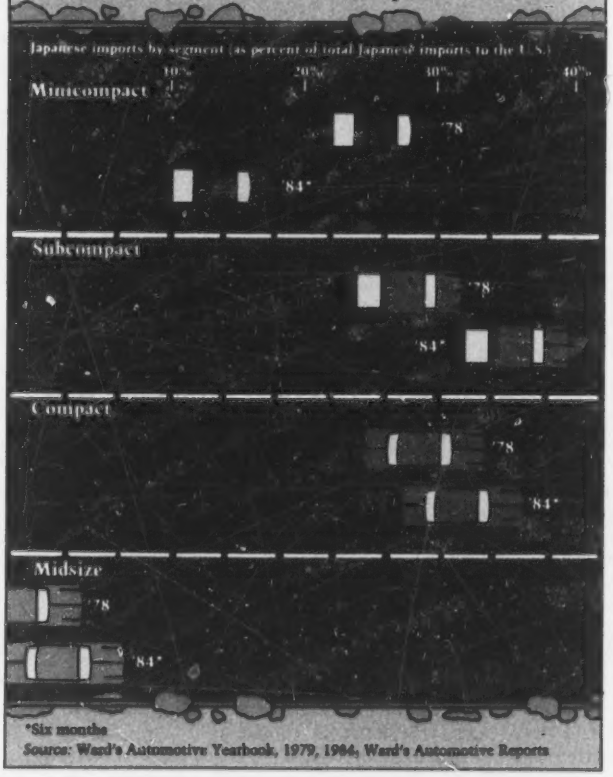
In the place of those relatively cheap models, Nissan has, since 1982, increased shipments of its classy Z Series sports car, now priced at $17,000 and up, and its large (by Japanese standards) Maxima sedan, which sells at $12,000-plus.

Taken together, sales of Nissan's Maxima and Z Series jumped from 81,000 units in 1980 to 147,000 last year. The Maxima accounted for most of that jump: a record 76,209 units last year, vs. an average of 18,000 from 1975 to 1980. Since margins on the more expensive Japanese cars may run at 15% and better, vs. around 8% on cheaper models, according to one automan, the voluntary restraints have sent Nissan crying all the way to the bank. And the company still has lots of new, upmarket product to ship, including the Leopard, a very hot looking, expensive sports car, which sells in Japan for the yen equivalent of about $11,500 and might go here for as much as $20,000.

So the Japanese automakers with the sizable quotas are, in the end, benefiting rather than suffering from the imposition of quotas. But it

Accelerating a strategy

Japanese automakers began moving upscale in the U.S. after unit quotas were applied in 1981. But dollar values were unaffected, hence the shift in product mix.



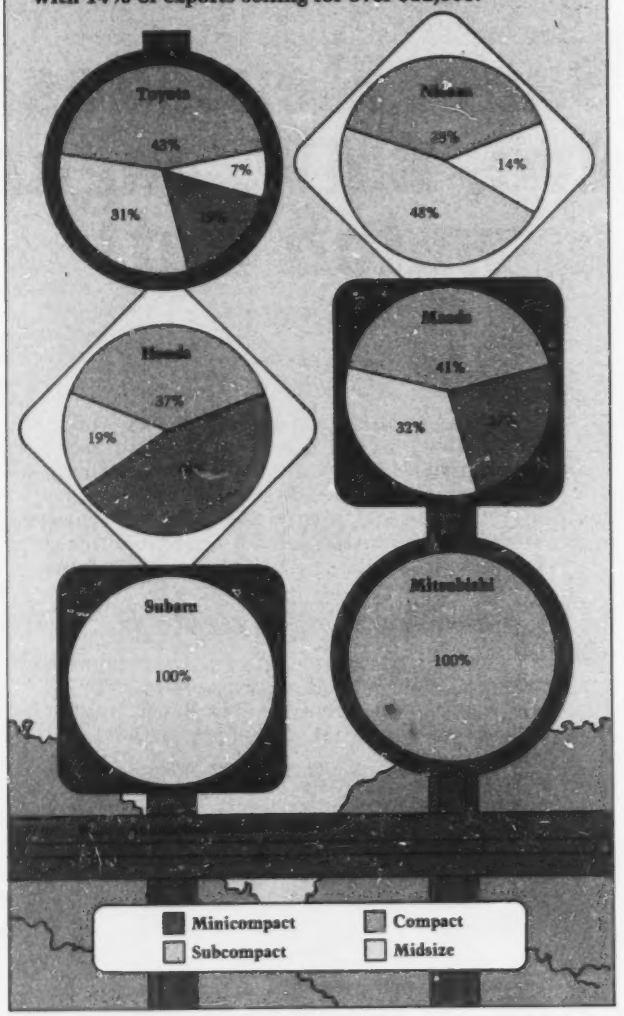
would be wrong to attribute this either to Japanese deviousness or to Japanese foresight. It was simply a commonsense business reaction to a serious problem—an almost reluctant solution. "When your unit volume is limited, you'd be a fool not to switch to a richer mix," explains Henry V. (Gene) Leonard Jr., GM's top man in Tokyo. "As long as the export restraints continue, then the Japanese companies will continue to push their larger cars, loaded with the maximum possible number of options in order to maximize their unit revenues."

One Japanese carman puts it best: "Quotas are the mother of invention."

Without the quotas the Japanese might have taken considerably longer to come to the same conclusion. The quotas have forced them into something they know they must do: move the lines upmarket (uncharted waters for the Japanese carmen) against the day when rampant competition breaks out among Japanese, American, Korean and Taiwanese small-car makers. As Nissan's personable board member Shiro Ozawa says in his near-flawless English: "It is getting harder to make money in small cars. Japanese companies must produce higher-priced, more luxurious cars."

Different routes, one destination

Each maker takes its own road to higher margins. In the first half of 1984 Nissan was ahead in the midsize range, with 14% of exports selling for over $12,000.



Wherever you look, the Japanese carmakers are enriching their lines with flashier, more expensive machines. Are these big machines in the American sense? No. They are, essentially, either gussied-up versions of their hardy little subcompacts, or modestly longer, wider compacts. In either case, more profitable. In a way, the Japanese are taking a leaf out of Detroit's book. Lee Iacocca builds an upmarket Chrysler LeBaron using the same basic design as his inexpensive Aries and Reliant. Chrysler didn't invent the pattern; it is Detroit's time-honored way. You build an extra $500 in costs into the new model and add $1,500 to the selling price. For their part, the Japanese can add a few inches here and there without huge production cost increases, thanks to high levels of automation and to their practice of mixed production, which allows them to build a variety of models on one assembly line without great retooling cost. This gives them production flexibility and retains their economies of scale. Within this pattern:

Toyota has trebled U.S. shipments of its upsize Cressida (list: $14,259) to 39,755 units and introduced a new upmarket car, the Camry, last year. The Camry, which lists at $10,948, sold nearly 53,000 units last year. Next year Toyota will probably introduce its MR2, a mid-engine sports car now zooming about the streets of Tokyo, where it sells for $7,000.

Isuzu, from which GM wants to buy 200,000 Spectrum subcompacts annually, is crippled by a minuscule quota of 50,000 units (up from 16,000 last year) and is shipping as many as possible of its sleek, $12,000 Impulse models. Says courtly Sadao Uenoyama, president of Isuzu Motors Overseas Distribution Corp.: "The way to go will be more value-added cars—not too big and not too small, and with lots of Japanese high technology in them. Today everyone wants variety in their cars. It is a fashion business, a fantasy business, like General Motors in the 1950s." Without the tail fins, of course. Tastes change. Human nature rarely does.

This month Mitsubishi Motors Corp. will introduce its Galant in America. The U.S. version is equipped with electronically controlled suspension, front-wheel drive and a new electronically fuel-injected four-cylinder engine developed for the U.S.' performance-oriented market. The redesigned Galant, which until this year sold in Japan as a subcompact, gives the impression of having all the interior room of a big American car and, according to *Car & Driver*'s technical editor, Csaba Csere, who has driven it, "the roadhandling characteristics of the better European imports." Mitsubishi, which is also hampered by a small quota, hopes to sell around 6,500 Galants this year, at a price of $12,800. "We are aiming [the Galant] at the doctors and lawyers," says Shinji Seki, MMC executive vice president. Dick Recchia, Mitsubishi Motor Sales of America executive vice president, puts it this way:

"The Japanese have already won the market for imported sports cars with Mazda's RX-7, Nissan's Z cars and our Starion. Now we're going after the top sedan market with the Cressida, Maxima and Galant. We've won the performance enthusiasts, and now we're going after the luxury car buyers."

No, the Japanese automen are not going after the full-size American car

market. They are upsizing their subcompacts to compacts but, for the foreseeable future, no further.

The reason for this limitation is obvious to any American who has simmered through Tokyo rush-hour traffic or been squeezed against the walls of Japan's narrow streets, many of which are still built just 4 meters wide. To harmonize population density and the automotive age, Japan's Ministry of Transport, through regulation and taxation, makes it all but impossible to produce, for domestic sale, cars wider than 1.7 meters (67 inches) and powered by engines larger than 2 liters.

The statistics are clear on the point. Whereas over 60% of U.S. new car registrations are in the over-2-liter class, in Japan only 2.5% are. In Japan virtually 100% of domestic registrations are 1.7 meters wide or less. The exceptions merely prove the rule: Those executive behemoths, Nissan's President and Toyota's Century, parked outside the expense-account joints in the Ginza are produced in token numbers. About 1,200 Centurys will be built this year and not many more Presidents. The President sells in Japan for a forbidding $24,000—about four times the Japanese price of a Honda Accord.

In theory, the Japanese could build a for-export-only car wider than 1.7 meters. But, like its watchmakers and consumer-electronics producers, Japan's carmakers depend for their low export prices on long production runs built on a solid home-market base. Take away their 3-million-units-a-year domestic sales, and Japanese automakers' unit production costs (and sticker prices overseas) would soar. These long production runs, based on two major markets, are one important reason Japan enjoys a $2,000-unit production cost advantage in small cars. (The other reason is labor cost.) No two ways about it: Detroit has it all over the Japanese in producing full-size automobiles efficiently. Concedes Kenichi Yamamoto, senior managing director at Mazda Motor Corp., "We cannot manufacture American full-size cars on a competitive basis. We don't have the technology."

Will people in the U.S pay upscale prices for a 1.7-meter-wide car? They already do. U.S. consumers pay $21,225 for a fancy Volvo 760 and $24,565 for a BMW 528e. The Volvo is 1.75 meters wide, the BMW 1.67 meters. This in spite of the fact that they could buy a 1.8-meter-wide Oldsmobile Cutlass for just $9,700.

You want an insight into the Japanese automotive strategy? Listen to Mazda's Kenichi Yamamoto:

"We think American customers are more demanding than they were five or ten years ago. They want a concept, originality, innovative technology—not just air-conditioning and big, smooth-riding cars. No waste, no bulk. The most important thing is that Mazda cars should be fun to drive—like BMWs and Audis." Toshinori Mori, manager of Mazda's America Division, adds: "Within the 1.7-meter limitation, we'll concentrate on technical improvements to get the feel and function of bigger cars."

Mazda, like the rest of its Japanese

Let's talk resale

Walk into a used car lot tomorrow and you will find that used Japanese cars are holding their value as well as any competing European and American models, and better than a lot. Below, the latest prices on some bestselling models as a percentage of their original price when new. Quotas have helped.

Used car prices (percentage of value retained)

	Japanese			European				American		
	Toyota	Honda	Nissan	Audi	BMW	Volvo	VW	GM	Ford	Chrysler
1983	Tercel 109%	Accord 99%	Sentra 95%	5000 88%	320i 100%	DL 105%	Jetta 86%	Supreme 89%	Escort 91%	Reliant 97%
1982	Corolla 95%	Accord 87%	Sentra 88%	5000 76%	320i 87%	DL 99%	Jetta 70%	Chevette 77%	Escort 78%	Reliant 82%
1981	Corolla 85%	Accord 81%	210 76%	4000 69%	320i 78%	DL 88%	Jetta 63%	Chevette 68%	Escort 67%	Reliant 75%
1980	Corolla 81%	Accord 83%	210 73%	5000 62%	320i 75%	DL 90%	Dasher 43%	Citation 64%	Fairmont 65%	Horizon 53%

Note: Used prices of 100%—and more—of suggested retail result from adding options and some dealer markups to the base sticker price.
Sources: National Automobile Dealers Association Official Used Car Guide, July, 1984; Ward's Automotive Yearbook 1982, 1984.

competitors, is moving at speed on this strategy. It has scaled back U.S. shipments of its popular 323 GLC (for Great Little Car) subcompact, priced at around $6,600. It shipped 65,298 units in 1980 and only 51,601 last year. The gap has been filled with RX-7 sports cars and with Mazda's 626, a substantially larger, heavier, smoother-riding car that lists between $8,300 and $10,500.

The Japanese car that probably has the best chance to wrest market share from West Germany's prestigious and costly BMW will appear, 18 months from now, from that most international of Japanese car companies, Honda Motor (FORBES, *Mar. 12*). Next fall, at its plants in England and Japan, Honda will begin production of a new luxury sedan, developed jointly with British Leyland and code-named the Honda XX.

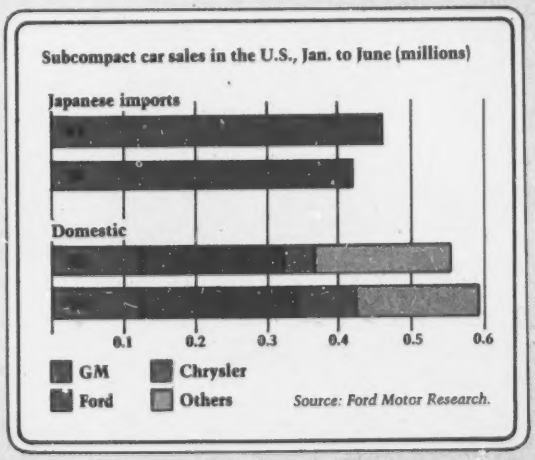
The car is still very much under wraps. But according to Honda sources and Japanese automotive journalists who have seen the car, the XX will be the largest model in Honda's line. In the Japanese market it will be powered by a 2-liter V-6 engine mounted in the front, with front-wheel drive for maximum interior space. Honda will produce 80,000 XX cars in Britain (70,000 of which will be sold under the BL nameplate). Another 45,000 or so will be built in Japan, for sale domestically and in the U.S., where the car will appear in the spring of 1986. Price will probably be $20,000 or more.

"In the past," says Honda Executive Vice President Koichiro Yoshizawa of the decision to build the XX, "we have concentrated on compact cars in the U.S. But cars like the European

The winner—by default

The myth is, having been disinterested in small cars, Detroit gave the market by default to Japan. The fact is American-made cars today dominate the U.S. market for subcompacts, those small, $7,000-and-under, four-cylinder automobiles that marked the first Japanese success in this country. The plain-Jane subcompact market isn't moving fast this year. Nearly everyone is buying upscale. Even buyers of smaller cars want sporty models or powerful engines. But where they are selling, U.S. makes have almost 60% of the market.

In the first half of this year just over 1 million of these low-priced subcompacts moved out of showrooms, 24,000 fewer than the year before despite the overall boom. Gasoline prices are drifting down toward $1 a gallon, the economy is booming and buyers are falling back into old habits.



Of this slightly over 1 million small cars, Japanese models such as the Toyota Corolla, Honda Civic, Nissan Sentra and Mazda GLC sold 412,000—54,000 fewer than the year before. Most of the remainder were U.S.-made cars: Ford's Escort, Chrysler's Omni and Horizon, GM's Chevette. The big U.S. subcompact seller is Ford, with its Escort and Lynx models. Ford dealers delivered 213,000 in the first six months, down from the 228,000 the year before. GM's Chevrolet Chevette and Pontiac subcompact sales added up to 111,000 cars, matching last year's figure. The real success story is Chrysler, where the Omni and Horizon subcompacts show gains, 76,000 sales in six months against 47,000 a year ago. The Chrysler subcompacts, greatly improved and repowered since their introduction seven years ago, may be the best around.

Detroit complains its costs are far higher than those of Japanese auto companies. So, are these cars, directly competitive with Japanese models, profitable? Detroit executives don't like to admit they make money on them, but executives concede that they do. Remember, the key costs in a car are the dollars spent on factories and machinery, and those cars are long paid for. The GM subcompacts date to the fall of 1975, Ford's to the fall of 1980, Chrysler's to the fall of 1977. They've been in production so long that the old Detroit saying applies: "We lose money on every one, but we make it up in volume."

But don't read too much into this victory. Some of it is by default. The Japanese, limited in the number of cars they can ship, increasingly send $10,000 cars instead of $7,000 cars. The American carmakers are still leery of big investments for this part of the market, and UAW members balk about the wage and work-rule concessions needed to make these cars profitable enough to justify further investment. That American companies made the investment at all was largely because of fears that, with oil heading to $100 a barrel, the public would be forced down to the low end of the market. But those fears have faded. For the future, GM has ordered subcompacts for its dealers here from two Japanese and one Korean manufacturer. Under its joint deal with Toyota, it will assemble cars here, but many of the major components will be Japanese. Ford and Chrysler haven't made such deals yet, but they could happen.

Small subcompacts, though, will be built in America for years to come. Chrysler will restyle its subcompacts in a few years, making them a little bigger, too. Ford will restyle its Escorts next spring and increase engine power. Also, Honda of Japan will build its tiny Civic models in Ohio in a few years.

In the last analysis, the "voluntary" quota system bought time for the U.S.-made subcompact. But at the expense of troubles for Detroit higher up in the price range *(see story)*.—**Jerry Flint**

ones, sporty but luxurious, such as the Audi and BMW—these are the segments of the market that are attractive to Honda for the future."

Will the Japanese companies build their bigger cars in their sprouting U.S. factories? For the time being, no. At its mushrooming plant in Smyrna, Tenn. (FORBES, *Mar. 12*), Nissan will produce its subcompact Sentra—100,000 annually by 1988. Reason: "It is a commercially safe car," says Nissan's Ozawa, adding he wants no problems at the plant. For the same reason Honda will build its seasoned Accords and CVCCs at its Marysville, Ohio plant. Toyota will build a model similar to its proven subcompact Corolla in Fremont, Calif. for GM. Hardly a compliment to U.S. craftsmen. The Japanese have decided they dare not compromise their quality image by building a new car in the U.S. The old, time-tested models, yes. The world changes.

Later, however, the Japanese will almost certainly build their bigger cars here. "At first they [Nissan, Toyota and Honda] will produce subcompact cars in the U.S.," says Mazda's Yamamoto. "But personally, I believe in the future they'll add new, bigger models, because U.S. customers want bigger cars, which are more profitable and can better absorb the higher cost of U.S. components."

Where does all this leave GM, Ford and Chrysler? The answer depends on what happens to quotas.

If the quotas are allowed to expire next March, free trade in cars will reappear. That could refocus Japanese attention on the low end of the market. In that event, expect severe price-cutting as the intensely competitive Japanese—Japan has nine carmakers but only half the population of the U.S.—bite and scratch each other for larger U.S. shares. In that case, Chrysler's Omni/Horizon and Ford's Escort/Lynx may be doomed. As Tomio Tsutsumi, director of the Automotive, Machinery & Information Industries Bureau of Japan's Ministry of International Trade & Industry, put it to FORBES:

"With the restraints, Japanese car dealers can price a car at $10,000 and tell customers to take it or leave it. But if restrictions are removed, customers will again be able to get a $7,000 Japanese car, and they won't have to take or leave the $10,000 car."

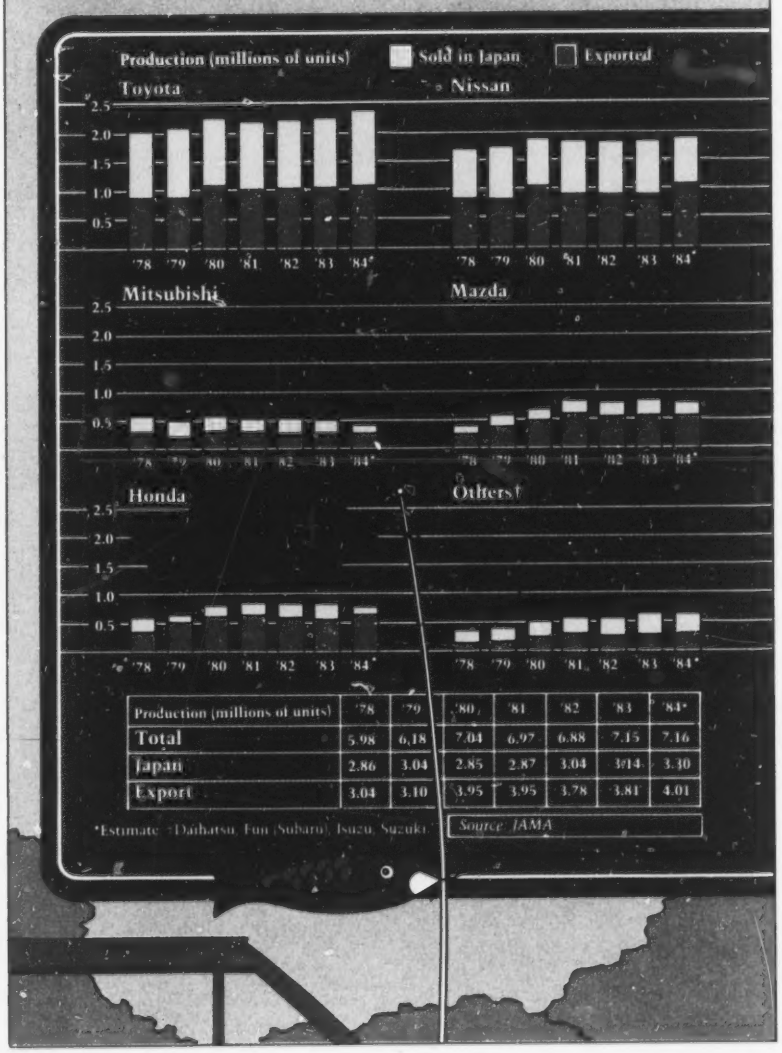
We asked Tsutsumi what he thinks will happen to quotas. He replied that the issue is "very touchy"—and conceded that MITI "has not yet decided" its position on quotas. An American automan based in Tokyo explains why they haven't made up their minds: "The Japanese are trying to figure out who has the better line to the next president—[GM Chairman Roger] Smith or [Chrysler Chairman Lee] Iacocca." The meaning is clear: Since GM has decided to join the Japanese rather than fight them, quotas may open up if GM's views prevail. Chrysler, on the other hand, is making money selling small cars here and would like to see quotas tightened.

But the Japanese carmakers, those with the bigger quotas at least, are perhaps less concerned with quotas than they let on. They have come to understand that in a vast and complex market such as the American one, the price points you cover are more important than market share. You can make more money on one $10,000 car than on two $5,000 cars. And on a $25,000 car? Just ask Mercedes.

Nissan's Ozawa reflects this new sophistication when he says: "I no longer worry much about statistics, statistics, statistics, as I used to, but with studying consumer psychology. This will be the key for us in the future." ■

Going uphill, slowly

Total production by Japanese carmakers has been climbing in recent years, but not dramatically—up less than 20% in the last six years. Most of the increase has been shipped off for the export trade. In their home market, which is half the size of the U.S. market, nine Japanese carmakers fight for business with many different models and low margins. Only Mazda and Honda have shown important growth at home.



Production (millions of units)	'78	'79	'80	'81	'82	'83	'84*
Total	5.98	6.18	7.04	6.97	6.88	7.15	7.16
Japan	2.86	3.04	2.85	2.87	3.04	3.14	3.30
Export	3.04	3.10	3.95	3.95	3.78	3.81	4.01

*Estimate †Daihatsu, Fuji (Subaru), Isuzu, Suzuki

Source: JAMA

Rigs sit rusting, but cash is gushing for many oilfield service companies. That's one reason for the takeover activity.

Oilfield service—why acquisitors are on the prowl

By Robert H. Bork Jr.

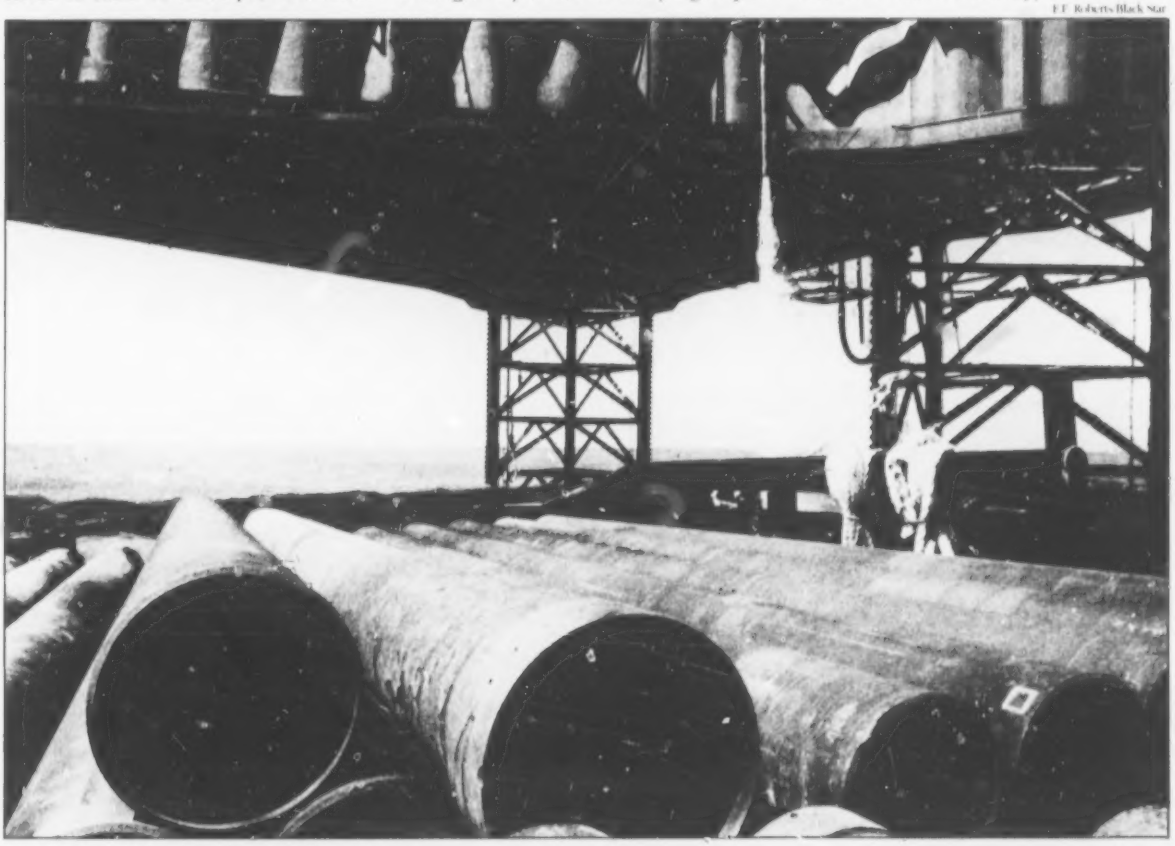
THE COLLAPSE OF the drilling binge in 1981 heralded a grim future for oilfield service companies. Yet in 1984, even as most service companies are reporting their worst results in a decade, one encouraging thing can be said: Many of them aren't short of cash. A three-year scramble to slash capital spending, inventories and payrolls is beginning to pay off. The situation makes some companies in the industry attractive as acquisitions and puts others in position to make acquisitions of their own, perhaps in different businesses.

Some $2.7 billion in excess cash flow will be generated collectively during this year and next by a group of 14 oil service companies followed by analyst Sam Albright of Kidder, Peabody's Dallas office. Albright defines excess cash flow, also known as free cash, as cash from operations less capital spending, dividends and scheduled debt repayments.

How is this possible with drilling a such a depressed level? Many of the reductions in earnings or outright losses are the result of mammoth amounts of depreciation and writeoffs. "Put simply, these guys added so much to their capital stock—plant and equipment, or rolling stock in the field—that they are showing horrendous losses and yet are generating positive cash flow," Albright says.

To be sure, premature optimists, not excluding FORBES *(June 21, 1982)*, have been wrong before. And many oilfield service stocks are obvious candidates for tax-loss selling later this year, which could make them poor short-term investments. Nonetheless, amid the oil patch debris there may be opportunity, which some large investors are attempting to seize. Gearhart Industries and Enterra Corp., for example, have had takeover offers recently, and NL In-

J.F. Roberts/Black Star



Supply boat delivering pipe to offshore rig
The writeoffs are frightful, but they don't cost cash.

dustries is buying a large chunk of Digicon.

This year giants Schlumberger Ltd. and Halliburton Co. combined will contribute 94% of the group's $800 million in excess cash. But in 1985 that share should drop to 68% of the estimated $1.9 billion as the cash-generating power of smaller companies accelerates.

Losses don't always mean cash out the door. Hughes Tool Co. in July announced a $174 million pretax charge, mostly writeoffs of inventory, receivables, plant and equipment. Less than 5% of the sum—mostly for lease cancellations and severance pay—involved a cash outlay.

Or look at Parker Drilling Co. The Tulsa-based deep-drilling contractor lost $43 million pretax last year and figures to lose another $60 million in the fiscal year ended last month. Business is indeed down, but $37.1 million of last year's loss and a third of the fiscal 1984 loss were caused by writeoffs of oil and gas properties, inventories and receivables.

"It's all paper," says Robert Parker Sr., chairman. Cash, mostly in the form of short-term securities, stands at about $140 million, up 82% from two years ago. "Our game plan [is] to write off all we can, to improve our staying power and be there when the industry turns around."

The depreciation effect is more pronounced at tool rental companies like Radnor, Pa.-based Enterra, which depreciates drilling equipment quickly. Even though it lost $21 million in 1983, depreciation of $46 million and writeoffs of $6 million made cash flow positive. An $11.5 million tax refund received in March went to pay down some expensive floating-rate debt. Long-term debt, $95.5 million at the end of 1982, was cut to $76.3 million in June 1984.

Of course, the numbers can be deceiving. Offshore Logistics, a Lafayette, La. supplier of helicopters and boats to drilling platforms, shows $7.71 a share for earnings plus depreciation last year *(see table)*. Overseas contracts were keeping it healthy, but now the drilling depression has finally caught up. One of its boat subsidiaries has defaulted on a $17 million note, and the banks are throwing liens on equipment.

What will the industry do with its money? "Good question. There isn't a lot of use for cash to reinvest in their basic businesses, since most are plagued by significant overcapacity," says Salomon Brothers analyst James Crandall. Zapata Corp. and Rowan Cos., two Houston-based offshore drillers, are courageous exceptions. This year Zapata bought two used deep-water semisubmersible rigs and built a third. Rowan expects two new jackup rigs to be delivered by December. Parker is hoarding his company's cash to pay for reactivation of rigs this fall and next year to meet what he hopes will be a rejuvenated demand for deep gas wells. The cost: an average of $1 million a rig.

But withdrawal of capital from this industry seems to be the norm for now. That will take the form, for example, of one company's purchase of another for cash. Says Crandall, citing Smith International's dogged pursuit of Gearhart [for which it is offering $31 a share]: "If investors don't recognize bargains out there, then corporate acquirers will." ■

The brier patch

The oil patch has gotten rather thorny over the past three years. But out of these nettles one might pluck a few flowers. The "excess cash flow" figures at right suggest how cash can pile up even in currently loss-ridden firms. Note: The table penalizes companies that have announced spending plans early, but the numbers nonetheless show relative strength.

	EPS		Stock price			Per share 1983			
Company	1981	1984 est	12/31/80	recent	Employment change[6]	cash flow[4]	dividends	capital spending	excess cash flow 1984–85[5]
Halliburton	$5.72	$3.25	83½	32⅞	–36%	$5.84	$1.65	$2.05	$5.30
Schlumberger	4.37	4.00	78	46	–16	6.13	1.00	1.79	4.90
Hughes Tool	4.60	0.20	48¼	14½	–18	0.74	0.84	1.29	4.20
Baker	3.36	0.80	48⅜	17	–6	2.78	0.92	1.72	3.40
Dresser	4.04	0.85	53½	19⅝	–19	2.54	0.80	1.55	3.00
Western Co NA	2.28	–0.20	28½	17⅞	–13	1.28	0.06	1.34	3.00
McDermott	4.98	3.00	41	28⅜	–34	8.05	1.80	4.05	2.80
NL Industries	4.69	0.40	38¼	12¾	–37	1.35	1.00	0.91	2.60
Parker Drilling	2.75	–1.40	34¾	7⅛	–55	2.16	0.16	0.61	1.80
Enterra[1]	5.78	0.04	47⅞[2]	12½	NA	3.19	0.84	1.47	1.41[5]
Galveston-Houston	3.80	–0.60	35¾	8½	–61	0.11	0.05	0.47	0.35
Smith Intl	5.90	0.80	64⅜	13¾	–36	2.20	0.96	2.04	–2.20
Gearhart	2.05	1.20	56⅜	14⅞	9[7]	3.45	0.40	3.05	–2.50
Rowan	2.22	0.25	22½	10⅝	–5	1.22	0.08	2.95	–3.50
Zapata	3.81	1.60	36⅜	17⅞	–3	5.92	0.84	7.34	–8.40
Offshore Logistics	2.04	–2.28[3]	30⅛	3½	–44	7.71	0.48	2.91	–16.02

NA: Not available. [1]Spun off July 1981 from Philadelphia Suburban Corp. [2]Dec. 31, 1980 price of Phil. Sub. less opening postspinoff price for Phil. Sub. [3]Fiscal year 1985. [4]Cash flow: earnings plus depreciation. [5]Excess cash flow: cash flow from operations less planned capital spending, dividends and scheduled debt repayments. [6]Number of employees currrent, versus January 1981. [7]Reflects increase in international operations. [8]1984 only.

Sources: Companies, Kidder, Peabody & Co., Value Line, IBES.

Worse, since doctors charge on a fee-for-service basis, they have strong incentives to sell as much as they can. Because the doctors dominate the demand for services, they have the power to do so.

"The single most important determinant of costs occurs in the brain pan of the physician," says Pat McGuire of The Conference Board. Doctors decide whether hospitalization is necessary (and for how long), what tests to perform and what medicine to give. Doctors' fees might be a small portion of the bill, but "they control 80% to 85% of costs," says Glenn Witt of the Iowa Health Policy Group. "We found that doctors put patients in hospitals too often, asked for too many tests and kept them there too long."

Predictably, the health care industry has not taken coalition attacks docilely. Says Gaylen Young of the American Hospital Association, "When you give someone a blank check and they use it, you don't really have a right to complain about what they filled in."

Both the AMA and the American Hospital Association have formed groups to watch coalition activity. And both have been critical, without success, of coalition policies that exclude them from membership.

Companies, satisfied with the victories wrought by their coalitions, are eager to expand and conquer. Says Glenn Witt of the Iowa coalition, "Business is going to stay in the coalition business because health care costs are our business." ■

Back in the 1970s Western banks lent billions of dollars to Eastern Europe. Now they are turning the tap back on.

Second time around

By Thomas O'Donnell

WHILE THE WORLD was worrying about Argentina's bank debt a few weeks ago, Hungary quietly borrowed $480 million from a consortium of Western banks.

"It's part of a new round of lending," says Stephen Pelletier, head of the U.S.S.R.-East European unit of Manufacturers Hanover. "It signifies Eastern Europe is once again a good credit risk."

During the days of détente, Eastern Europe's debt to Western European, Japanese and American banks neared $57 billion. In March 1981, Poland asked to reschedule its debt. Rumania followed a few months later. And Yugoslavia was forced to refinance in January 1983. The umbrella theory that said the U.S.S.R., to retain its reputation in Western financial markets, would come to their aid proved wrong. "Right now, the Russians wouldn't mind seeing a satellite or two get into trouble," says Jan Vanous, Wharton Econometric's Eastern European expert. "That might push them closer together."

Is Eastern Europe in better shape economically than it was before? If so, it is partly because the banks did stop lending when Poland rescheduled, says Bankers Trust economist Lawrence Brainard. "That put severe pressure on those countries," he says, and they drastically cut imports and pushed exports. The result is that the seven Eastern European nations posted a hard currency surplus of $8 billion last year, compared with a $4 billion deficit in 1980.

So Western banks have started lending money again in most of Eastern Europe—Hungary, Yugoslavia, East Germany, Rumania, Czechoslovakia and Bulgaria. The spigots opened again in late 1983. For two years after Poland's 1981 rescheduling, Western banks lent no new money at all. Now, at least five major loans, totaling almost $1.2 billion, have been signed over the past ten months. "With the exception of Poland, lending relations have returned to normal," says Wharton's Vanous.

What has changed? The banks point out that the level of debt has now dropped from $57 billion to under $45 billion, proving that Eastern Europe pays its bills and that Poland was the exception. They also insist they are doing it differently this time. "We're going after short-term, trade-related credits," says Pelletier of Manufacturers Hanover, which has long been a lender to Eastern Europe.

Maybe so, but most of the new loans are medium-term credits. The real lure is that spreads on loans in Eastern Europe have averaged 1% to 1.5% since round two began, vs. under 1% for most other borrowing nations. The more things change. . . . ■

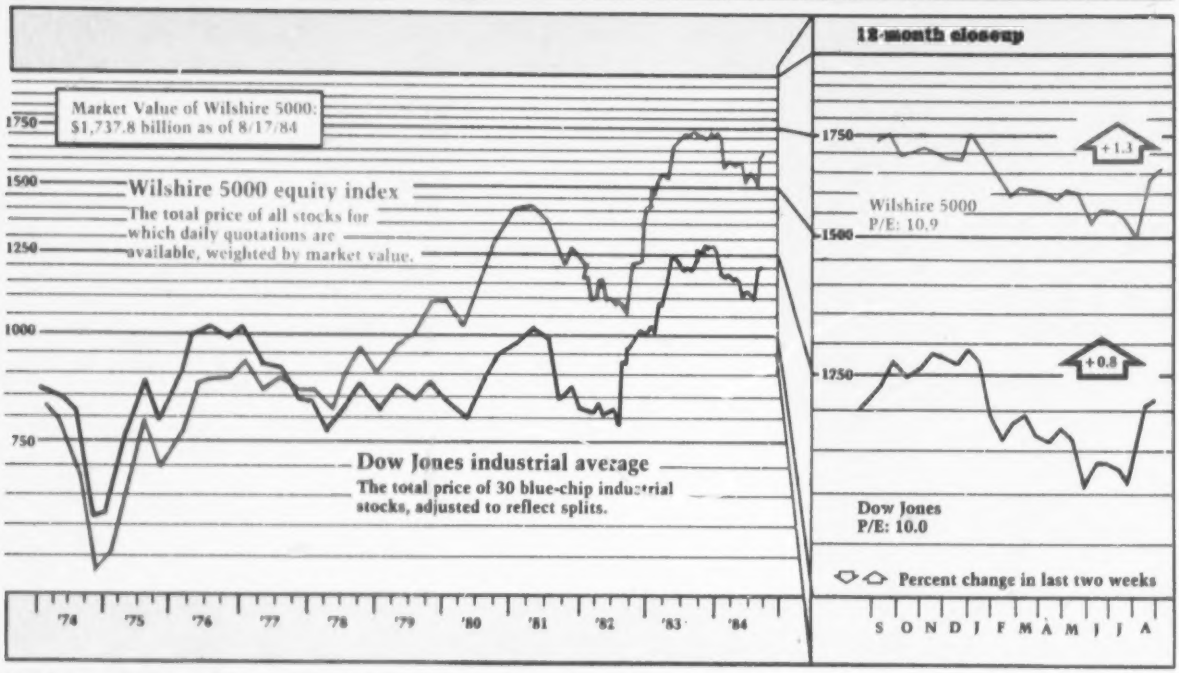
Eastern Europe's debt to Western banks

Poland's 1981 problems brought on the jitters, but at least that helped bring down total debt—for Poland itself as well as the rest of them.

Country	12/31/80 (billions)	US bank share	3/31/84 (billions)	US bank share
Bulgaria	$ 2.9	14.8%	$ 1.8	7.0%
Czechoslovakia	3.5	4.8	2.7	5.3
East Germany	9.9	11.6	8.5	5.3
Hungary	8.0	11.3	6.7	13.0
Poland	16.2	12.9	10.7	8.8
Rumania	5.8	5.7	3.7	7.1
Yugoslavia	10.4	22.9	9.6	25.5
Total	$56.7	13.1%	$43.7	12.0%

Source: Wharton Econometric Forecasting Associates

The Forbes/Wilshire 5000 Review


12-month closeup
Market Value of Wilshire 5000: $1,737.8 billion as of 8/17/84
1750
1500
1250
1000
750
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
'74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84
+1.3
Wilshire 5000 P/E: 10.9
+0.8
Dow Jones P/E: 10.0
Percent change in last two weeks
S O N D J F M A M J J A

Hard-won gains. Wall Street's winning streak faltered during the dog days of August. As many skeptical investors expected, the market seems to have moved into a consolidation phase. Over the most recent two-week period, trading activity slipped well below the record levels of early August. Even though there was some profit-taking, however, downside volume has generally been weaker than upside volume—a positive sign.

The Dow industrials gained only 0.8% during the last two weeks. Over the same period the NYSE rose 1.3%, the Amex 1.9% and the NASDAQ 1.7%. This is an indication that investors are taking some of their blue-chip winnings and moving into other stocks. Four-week data confirm that the rally has become broadly based. The Dow is up some 10%, while the Wilshire index, which now measures more than 5,600 issues, increased 9.6%.

On a 52-week basis, however, only the Dow is in positive territory. Its gain is a thin 1.5%. But over the same period NASDAQ shares are down 16.3%, and Amex issues are off by 10.1%. This means that secondary stocks still have lots of recovering to do and that many investors probably haven't recouped earlier losses. Until that happens they may be nervous about plunging headfirst into today's market.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	9.6	9.7	10.0	9.5	8.7	9.2
in last 52 weeks	–3.5	0.4	1.5	–0.5	–10.1	–16.3

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	10.9	4.4	8.8	5.5	6.8	6.9	5.7	6.5	6.4	6.1	9.2	2.8
in last 52 weeks	–1.9	–13.1	–17.5	5.1	–20.6	–2.8	3.7	–11.5	–16.9	6.7	3.3	–19.9

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

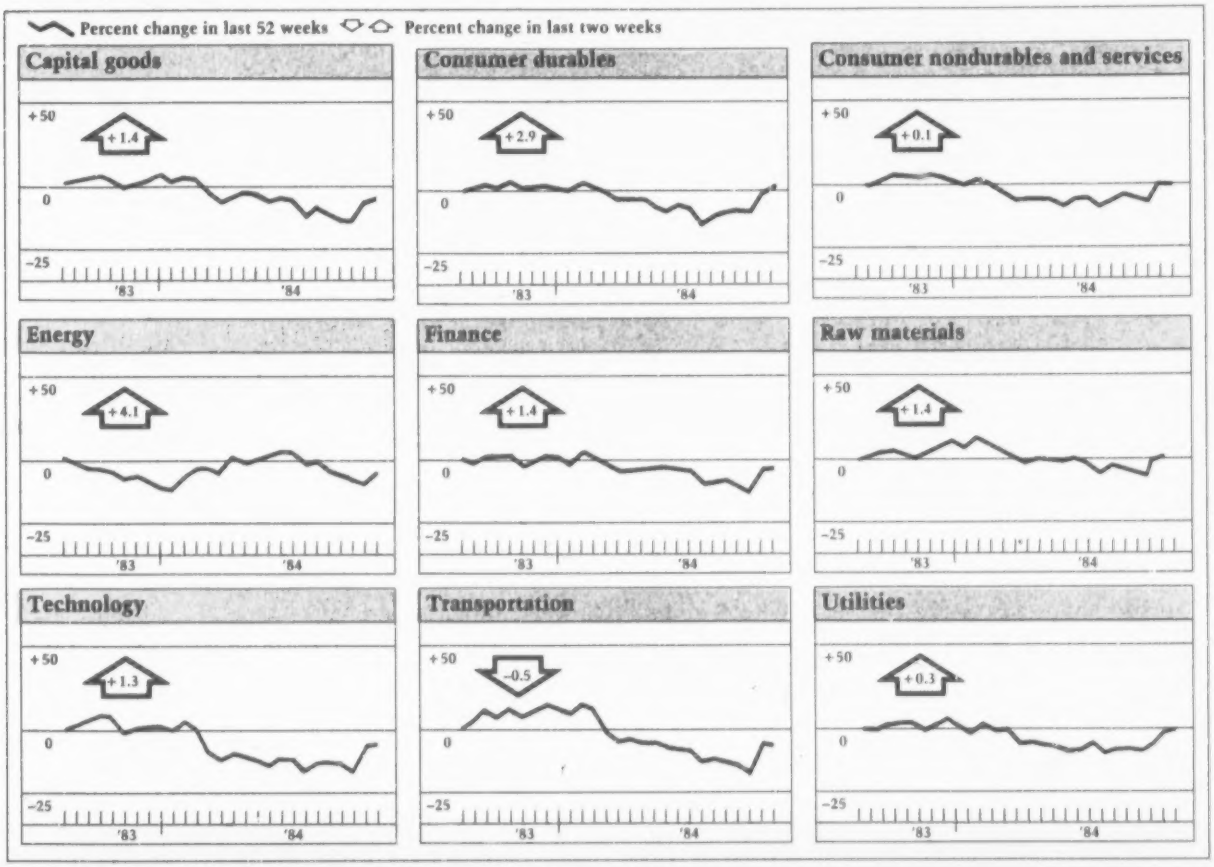
Note: All data for periods ending 8/17/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Shelley Dell

Where The Action Is

Spreading the wealth. During the most recent two weeks investors bought the stocks they passed over when the rally began. They also took profits in the stocks that were the first to post handsome gains. Energy and transportation show the most dramatic swings. In the latest reporting period energy stocks made the biggest two-week increase, a gain of 4.1%. But two weeks earlier they were the worst performers, with a 1.4% decline. The opposite with transportation: During the most recent two weeks these stocks were in last place, with a 0.5% decline, but they had spurted 16% in the previous period.

Over the longer term only consumer durables and raw materials are ahead of where they were one year ago. Capital goods, by contrast, has the worst 52-week record.



What The Analysts Think

The price is still right. The Wilshire index rose 1.3% during the last two weeks, and analysts reduced earnings estimates for all groups except energy and utilities. But quality stocks are still cheap. The Forbes 500 is now priced at 11.5 times present earnings, but only 8.9 times 1984 estimates and 7.1 times 1985 estimates.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.03	11.5
1984 estimates	3.94	8.9
1985 estimates	4.72	7.1

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	% change in 1984 estimate in 4 weeks
1	Energy	$2.67	0.62%	-1.88%
2	Utilities	2.93	0.31	-0.13
3	Capital goods	2.40	-0.21	-3.37
4	Consumer durables	3.29	-0.31	-1.36
5	Consumer non-durables	2.64	-0.67	-1.60
6	Technology	2.04	-1.90	-3.88
7	Transportation	2.61	-1.97	-3.36
8	Raw materials	2.70	-1.82	-3.69
9	Finance	3.50	-3.07	-6.57

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Shelley Dell

Note: All data for periods ending 8/17/84. Prepared by Wilshire Associates, Santa Monica, Calif., Zacks Investment Research, Inc., Chicago, Ill.

This August thousands of stocks shot up in price. But if Wall Street's estimates are correct, lots of shares may still be bargains.

Cheaper than they look?

By Steve Kichen

WHEN THE DOW JONES industrials fell to a 17-month low of 1086 on July 24, pessimists settled in for a worrisome summer. But by the second week of August plenty of investors went from tranquilizers and antacid tablets to champagne and celebration.

No one knows yet, of course, whether this latest surge will lead the market to record highs. But, for those who worry that they missed the boat once more, we have prepared a list of major companies that still appear attractively priced relative to estimates of future earnings.

We used Micro/Scan software to screen the 3,000 stocks in the Institutional Brokers Estimate System (IBES). Our goal: big companies now selling at less than 7.5 times expected 1985 earnings. We eliminated firms that didn't have at least three 1985 earnings estimates. And we asked the computer to drop any company that wasn't expected to show at least a 10% increase in earnings between 1983 and 1985.

Not too surprisingly, most of the companies on the accompanying list are in capital-intensive and cyclical industries. But that didn't deter investors this past August. Our table shows that many of these shares registered sharp gains in the recent rally. In just 14 trading days the group appreciated an average 13.5%.

What is the likelihood of further gains for these issues? Despite their recent advances, the average stock on our list is currently selling for only 6.2 times estimated 1985 earnings. Ford, Chrysler and General Motors

Patrick McDonnell

Bargain hunter's banquet

In early August these stocks rose an average of 13.5%. Still, they all sell at less than 7.5 times estimated 1985 earnings. And 15 have estimated P/Es below 5.5, less than half the current Wilshire multiple. If the analysts are correct, these stocks could be bargains. But if they are wrong, these shares could easily give up recent gains.

Company	Stock price recent	Stock price 7/24/84	Stock price % change	1983 EPS	1984 earnings estimate per share	1984 earnings estimate P/E	1985 earnings estimate per share	1985 earnings estimate P/E	Indicated yield
Allied Bancshares	21⅛	21⅛	0.0%	$2.55	$2.97	7.1	$3.44	6.1	3.8%
Aluminum Co of Am	37⅛	32¼	15.1	2.03	5.01	7.4	6.69	5.5	3.2
Amerada Hess	26½	25½	3.9	2.43	3.69	7.2	4.68	5.7	4.2
American Std	29	24½	18.4	2.27	3.24	9.0	4.28	6.8	5.5
AMR	27⅛	27	1.4	4.79	5.49	5.0	6.14	4.5	—
Armstrong World Inds	27⅝	23⅞	15.7	2.53	3.53	7.8	4.06	6.8	4.3
Ashland Oil	23	21½	7.0	2.22	3.10	7.4	4.03	5.7	7.0
Banc One	23¼	21⅛	11.1	2.55	2.93	8.1	3.28	7.2	4.2
BankAmerica	17⅛	15	15.8	2.18	2.56	6.8	3.27	5.3	8.7
Boise Cascade	39¼	33⅞	15.9	1.91	4.56	8.6	5.93	6.6	4.8
Borden	60½	56½	7.1	6.56	7.45	8.1	8.36	7.2	4.5
Borg-Warner	20⅞	17¾	17.6	2.03	2.54	8.2	3.13	6.7	4.0
Brunswick	35⅛	28	25.4	2.92	4.22	8.3	5.05	7.0	2.3
Burlington Inds	24⅞	24⅛	3.1	3.10	4.01	6.2	4.59	5.4	6.6
Burlington Northern	45¾	35¼	28.0	5.40	7.01	6.5	7.35	6.2	2.2

Sources: Lynch, Jones & Ryan's Institutional Brokers Estimate System (IBES) via Micro/Scan Data on Diskette from ISYS Corp.; Forbes

Statistical Spotlight

show the lowest P/E multiples, based on 1985 earnings estimates.

Ford, for example, is priced at only 2.8 times expected 1985 earnings. With a number of new products and captive imports in the pipeline, it may have a good chance at meeting its consensus forecast of $16.03 per share in 1985. At Chrysler, minivans have been sellouts and Chairman Iacocca has a new line of front-wheel-drive hatchbacks for the fall. Even so, the company's shares sell at only 2.9 times estimated 1985 earnings.

What these low multiples are saying is that Wall Street is highly skeptical about Detroit and other cyclical industries. In past market cycles, low P/Es similar to those on our list often signaled a peak in earnings and hard times ahead. But consider this: During the same 14 trading days that the Dow gained 12.1%, Chrysler was up 25.4%, Ford 24.5% and General Motors 16.2%. In fact, 44 of our low-P/E shares gained 15% or more during the recent runup.

Bargain hunter's banquet

Company	Stock price recent	Stock price 7/24/84	% change	1983 EPS	1984 earnings estimate per share	1984 earnings estimate P/E	1985 earnings estimate per share	1985 earnings estimate P/E	Indicated yield
Celanese	73⅜	63¾	15.1%	$6.89	$10.79	6.8	$11.97	6.1	5.5%
Champion Intl	19¼	19¼	0.0	1.22	2.77	6.9	3.87	5.0	2.1
Chrysler	30⅞	24⅝	25.4	2.35	14.13	2.2	10.56	2.9	2.6
City Investing	37⅝	37⅛	1.3	4.04	4.53	8.3	5.51	6.8	5.3
Coastal Corp	26⅞	27½	–2.3	3.65	4.92	5.5	5.30	5.1	3.0
Colt Inds	48	40¾	17.8	3.99	5.66	8.5	6.74	7.1	4.6
Crown Zellerbach	33	29¼	12.8	2.54	3.85	8.6	5.10	6.5	3.0
CSX	24⅛	18⅜	31.3	2.07	3.31	7.3	3.83	6.3	4.3
Cummins Engine	74⅜	64	16.2	0.36	15.14	4.9	16.81	4.4	2.7
Dana	25⅞	21⅞	18.3	1.97	3.43	7.5	4.18	6.2	4.6
Dow Chemical	30½	27	13.0	1.50	3.22	9.5	4.12	7.4	5.9
El du Pont de Nemours	48¾	43¾	11.4	4.70	6.31	7.7	7.18	6.8	6.2
Eaton	51	42⅛	21.1	3.06	6.76	7.5	7.92	6.4	2.4
ENSERCH	19½	20	–2.5	1.20	2.08	9.4	2.56	7.6	8.2
Ethyl Corp	24⅜	21⅞	12.6	2.61	2.97	8.3	3.42	7.2	3.5
First City Bancorp	17½	17¾	–1.4	1.23	2.56	6.8	3.09	5.7	7.4
First Union Corp	29⅜	27⅜	7.3	3.59	4.23	6.9	4.71	6.2	3.4
Ford Motor	45⅛	36¼	24.5	10.29	15.32	2.9	16.03	2.8	3.5
General Dynamics	61½	53⅜	14.7	5.30	7.10	8.7	8.51	7.2	1.6
General Motors	75¼	64¼	16.2	11.84	16.85	4.5	18.09	4.2	6.6
General Pub Utils	10⅛	8⅞	14.1	1.10	1.52	6.7	1.85	5.5	—
Georgia-Pacific	22½	19⅞	13.2	0.97	2.80	8.0	3.39	6.6	3.6
BF Goodrich	30	26¾	12.1	0.68	3.99	7.5	5.16	5.8	5.2
Goodyear Tire	27½	23½	17.0	2.71	4.16	6.6	4.66	5.9	5.1
Great Northern Nekoosa	37	31¼	18.4	3.25	4.72	7.8	5.74	6.4	3.8
Great Western Finl	21¼	18¼	16.4	2.08	3.46	6.1	3.77	5.6	4.1
Greyhound	22⅜	19⅞	13.8	1.91	2.76	8.2	3.50	6.5	5.3
Halliburton	33¼	32	3.9	2.66	3.37	9.9	4.42	7.5	5.4
Hercules	34⅜	27⅞	23.3	3.17	3.89	8.8	4.56	7.5	4.2
Interco	62⅜	56¼	11.3	7.02	8.24	7.6	9.08	6.9	4.9
International Paper	53¾	46¼	16.2	4.61	5.38	10.0	7.22	7.4	4.5
InterNorth	37½	35⅜	6.0	4.77	5.67	6.6	6.20	6.0	6.6
James River	30⅞	25¼	22.3	3.40	4.42	7.0	4.32	7.1	1.8
K mart	34½	29½	16.9	3.80	4.47	7.7	5.01	6.9	3.6
Kerr-McGee	29½	27⅜	7.8	2.24	3.35	8.8	3.99	7.4	3.7
Koppers	21	18¾	12.0	0.60	1.87	11.2	2.86	7.3	3.8
Libbey-Owens-Ford	47⅞	45¼	5.8	3.18	5.96	8.0	7.17	6.7	2.5
Lockheed	44½	36¾	21.1	4.18	5.18	8.6	6.34	7.0	1.3
MAPCO	24¼	23⅛	4.9	1.73	2.86	8.5	3.37	7.2	4.1
McGraw-Edison	36	32⅜	10.3	1.92	3.77	9.5	4.86	7.4	5.6

Sources: Lynch, Jones & Ryan's Institutional Brokers Estimate System (IBES) via Micro/Scan Data on Diskette from ISYS Corp.; Forbes.

Statistical Spotlight

The real question is whether this year's August rally is similar to the events of two years ago. In August of 1982, the economy was on the verge of pulling out of a deep recession, short-term interest rates had been falling for weeks and the S&P's 500 was selling at an average of only 6 times 1983 earnings estimates. In retrospect, conditions looked ripe for the Dow to gain 500 points to its peak in January of this year.

Is another surge coming, or is the market's recent move just another false alarm like the one that sounded early in January? Any sustainable rally must overcome investor concern about interest rates, the strength of the dollar, budget deficits and the speed of the economy's recovery. No wonder Wall Street is hesitating after an extremely strong start.

If the prophets of gloom and doom are wrong, however, many of the bargains listed on these pages will not last for long. Sharp-eyed contrarians have already bagged nice profits in the past few weeks. But these gains may pale by comparison if another buying scramble begins. ■

Bargain hunter's banquet

Company	Stock price recent	Stock price 7/24/84	Stock price % change	1983 EPS	1984 earnings estimate per share	1984 earnings estimate P/E	1985 earnings estimate per share	1985 earnings estimate P/E	Indicated yield
Mead Corp	38⅝	33	17.0%	$1.30	$4.18	9.2	$5.37	7.2	2.6%
Monsanto	48¾	42⅞	13.7	4.88	6.46	7.5	7.34	6.6	4.7
Natl Distillers & Chem	26⅛	24⅜	6.1	1.77	3.14	8.3	3.65	7.2	8.4
NCR	27¼	21⅜	27.5	2.64	3.17	8.6	3.62	7.5	2.9
Norfolk Southern	57	49⅜	15.4	5.67	7.33	7.8	8.15	7.0	5.6
Northwest Airlines	37⅞	34⅝	9.4	2.19	4.66	8.1	5.59	6.8	2.1
Olin	30½	27	13.0	3.01	3.88	7.9	4.80	6.4	4.3
Owens-Corning Fiberglas	30⅛	25⅛	19.9	2.77	4.54	6.6	5.35	5.6	4.0
Owens-Illinois	39	35	11.4	2.46	4.50	8.7	5.37	7.3	4.3
PACCAR	49	41½	18.1	2.07	5.72	8.6	7.34	6.7	2.4
Pacific Gas & Elec	14⅝	14	4.5	2.15	2.56	5.7	2.64	5.5	11.8
Panhandle Eastern	34⅝	34	1.8	3.64	4.49	7.7	5.32	6.5	6.6
Phibro-Salomon	30⅜	22	38.1	3.35	3.86	7.9	4.53	6.7	1.8
PPG Inds	33½	28⅜	18.1	3.34	4.55	7.4	5.30	6.3	4.3
Rohm & Haas	61¼	49¼	24.4	5.33	7.28	8.4	8.06	7.6	3.3
Scott Paper	30¼	26¼	15.0	2.58	3.54	8.7	4.37	7.0	3.6
Sears, Roebuck	36⅛	30½	18.4	3.80	4.45	8.1	5.08	7.1	4.9
Southland	29¼	25½	16.7	3.26	4.46	6.7	5.57	5.3	3.1
Sperry Corp	41⅛	35⅛	17.1	3.86	5.40	7.6	6.35	6.5	4.7
AE Staley Mfg	23⅞	18⅜	28.2	0.31	1.40	17.1	3.22	7.4	3.4
Std Oil of Indiana	56¾	54½	4.1	6.39	7.43	7.6	8.28	6.9	5.3
Std Oil of Ohio	46½	43⅞	6.0	6.14	7.06	6.6	7.68	6.1	5.6
Temple-Inland	34¼	27	26.9	1.99	3.87	8.9	5.17	6.6	1.5
Tenneco	38	35½	7.0	4.75	5.64	6.7	6.42	5.9	7.4
Texas Eastern	31⅛	28⅛	10.7	2.98	3.86	8.1	4.39	7.1	7.1
Timken	56⅛	53	6.4	0.05	5.22	10.8	7.27	7.8	3.2
Transamerica	25⅛	21½	18.0	2.77	3.20	7.9	3.62	7.0	6.1
UAL	36⅛	33⅞	7.4	3.88	6.02	6.0	7.13	5.1	—
Union Carbide	55⅛	48⅞	13.8	3.11	6.85	8.1	8.59	6.5	6.1
United Energy Res	24	22¼	5.5	1.04	3.29	7.3	3.90	6.2	10.3
US Gypsum	57¾	48¾	18.5	4.77	10.46	5.5	11.16	5.2	4.5
Upjohn	52¼	47⅝	9.7	5.28	6.05	8.6	6.64	7.9	4.9
USAir Group	27⅞	22½	23.9	3.49	4.28	6.5	5.03	5.5	0.4
Westinghouse Elec	25⅜	20½	23.8	2.54	3.01	8.4	3.53	7.2	3.9
Westvaco	38⅞	35	11.1	2.30	4.16	9.3	5.29	7.3	3.1
Whirlpool	45¼	39¼	15.3	4.58	5.48	8.3	5.95	7.6	4.4
Williams Cos	26¼	23½	13.8	1.79	3.93	6.8	4.70	5.7	4.5
FW Woolworth	37½	34¾	7.9	3.72	4.47	8.4	5.16	7.3	4.8

Sources: Lynch, Jones & Ryan's Institutional Brokers Estimate System (IBES) via Micro/Scan Data on Diskette from ISYS Corp.; FORBES

When little companies are flush with funds, should you rush to buy stock? Not without doing plenty of homework.

Idle cash, the investor's playground?

By Leslie Pittel

SUPPOSE YOU COULD buy a stock where the cash value per share was greater than the market price. In theory, what a bargain: A greedy takeover artist would surely step in and liquidate, rewarding you with a handsome profit.

In practice, however, the world doesn't always work that way. RegO Group, for example, makes valves in Chicago; it has $12.22 per share in cash, and its stock recently sold for 7⅜. Don't call your broker, though. RegO is 90% owned by the Pritzker family's Marmon Group. Not a chance of a takeover. Little possibility even of fat dividend payments.

That's why looking at tempting, cash-rich firms is a real detective game. Sure, a fat bank account is nice on a rainy day, but piles of money on the floor can just as easily mean poor management. Or a family-controlled business may be hoarding funds to avoid double taxation. If that lures an outside bidder, wonderful. If not, there is no guarantee that shareholders will benefit.

Patricia McDonnell

With all this in mind, we screened the Standard & Poor's Stock Guide database to find companies with cash/price ratios of 50% or better. We looked for firms with under $150 million in sales, eliminating all foreign and financial stocks and closely held companies. We included only those firms whose debt is less than 50% of equity. Highly leveraged businesses are less likely to be taken over.

At first glance all 11 of the companies below look mouth-watering. But several of these firms, such as Cook Data Services, Renal Systems and Wicat Systems, are newly public. They have yet to spend money they raised during the new issues boom.

Half of the firms on our list are losing money. Some, like Key Co. and AIC Photo, have significant family ownership. And other firms that look profitable are in trouble. Esquire Radio & Electronics, for example, recently lost its biggest customer, Montgomery Ward. Then there's EDO Corp., a defense electronics firm. Just over half of its cash is in the form of contract advances, money that is earmarked to be spent on pending projects.

The point here is that each of these businesses is flush with funds for a different reason. A little sleuthing, and there may well be bargains here. But even though numbers are important, they won't tell you the whole story.

Money in the bank

These firms are all loaded with cash, and several of them are also selling for less than book value. But stocks are usually cheap for a reason. Half these companies are losing money. In other cases, earnings may fall fast.

Exch	Company/business	Price recent	Price 52 weeks high	Price 52 weeks low	EPS	P/E	Cash/ price	Debt/ equity	Book value	Current ratio	Sales ($mil)
a	**Selas Corp of America**/indus machinery	4⅞	6⅝	3⅛	–$1.42	NM	155%	0.0%	$ 4.11	1.11	$ 22.48
a	**Esquire Radio & Elec**/electronics	31	31⅛	24⅜	5.11	6.1	154	0.5	41.61	4.38	67.57
o	**Cook Data Services**/computer svcs	3¼	9½	3	0.15	21.7	115	0.0	4.70	14.85	5.63
a	**AIC Photo**/photo equip, finishing	1⅝	3⅜	1¼	–1.32	NM	96	2.5	3.37	1.37	21.78
n	**EDO Corp**/electronics	16½	20¼	13	1.25	13.2	78	7.4	7.69	1.71	110.56
o	**202 Data Systems**/computer svcs	3½	12	3¼	0.12	29.2	78	28.2	3.45	8.66	1.85
o	**Clinical Data**/health care equip	1½	4⅛	1	–0.02	NM	70	21.7	2.06	3.89	7.98
o	**Wicat Systems**/computer equip	2½	13¼	1⅞	–0.76	NM	70	1.2	2.99	7.96	23.23
o	**Integrated Genetics**/medical lab, resch	3⅜	9¾	2⅞	–0.17	NM	70	14.2	2.65	19.72	3.05
o	**Renal Systems**/health care equip	5¾	13⅜	4¼	0.49	11.7	67	14.5	5.71	4.37	10.53
a	**Key Co**/home-building	7¼	10⅜	5¼	–0.56	NM	63	0.3	8.37	3.78	18.67

a: American Stock Exchange. o: over-the-counter. n: New York Stock Exchange. NM: Not meaningful.

Sources: Standard & Poor's Stockpak-II System; FORBES